

Global Power/North America
Credit Update

Nicor Gas Company
A Subsidiary of Nicor Inc.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Long-Term IDR	A	NR	12/6/05
First-Mortgage Bonds	AA-	AA	6/29/04
Sr. Unsec. Debt	A+	NR	7/1/05
Commercial Paper	F1	F1+	6/28/07

IDR – Issuer default rating. NR – Not rated.

Rating Watch..... None
Rating Outlook..... Stable

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Profile

Nicor Gas is a wholly owned subsidiary of Nicor serving approximately 2.2 million customers in northern Illinois, excluding the city of Chicago.

Related Research

- Nicor Inc., Credit Update, August 15, 2007.

Key Credit Strengths

- Strong cash flows.
- A purchased gas adjustment mechanism that helps stabilize earnings and cash flow.
- Efficient operations.
- Modest leverage.

Key Credit Concerns

- Contentious political and regulatory environment in Illinois.
- Risk of adverse outcome of PBR investigation.
- Risk of prudence review of gas costs.

Rating Rationale

On July 5, 2007, Fitch Ratings affirmed Nicor Gas Company's (Nicor Gas, issuer default rating [IDR] 'A') long-term ratings and revised Nicor Gas' short-term IDR and commercial paper rating to 'F1' from 'F1+'. The revision of Nicor Gas' short-term ratings reflects a methodology revision by Fitch in short-term and long-term rating linkage practices. Fitch now excludes loss-severity analysis from short-term ratings assigned to instruments. The short-term rating revision does not reflect any change in the credit profile of Nicor Gas. Please see Fitch criteria report, "Short-Term Ratings Criteria for Corporate Finance," dated June 12, 2007, for a description of Fitch's short-term ratings methodology.

The ratings for Nicor Gas reflect the company's modest leverage as well as strong cash flow and earnings. A purchased gas adjustment (PGA) mechanism that was put in place in 2005 provides for gas costs to be passed through to customers with monthly adjustments, thus helping to stabilize cash flow. Additionally, the company hedges approximately 70% of forecasted winter sales. Nicor Gas' significant underground storage assets of approximately 150 billion cubic feet (bcf) of storage capacity and its proximity to eight interstate pipelines are instrumental in the company's management of commodity price risks and increase the reliability of service.

Rating concerns surrounding Nicor Gas primarily relate to possible negative financial implications of an ongoing investigation into its performance-based rate (PBR) plan that was in place from 2000 through 2002, as well as the heightened political and regulatory risk in Illinois.

Recent Developments

In March 2007, the U.S. Securities and Exchange Commission (SEC) approved a settlement between Nicor Inc. (Nicor) and the SEC's Division of Enforcement concerning allegations of improper accounting of natural gas costs by Nicor under the terminated PBR plan. Pursuant to this settlement, Nicor paid the SEC a fine of \$10 million.

Nicor Gas remains negatively exposed to allegations of misconduct under the PBR, which the Illinois Commerce Commission (ICC) and the Illinois Attorney General's Office (IAGO) continue to investigate.

August 15, 2007

In 2000, the ICC put in place an incentive fuel cost mechanism through which the company would share equally any cost savings from gas procurement as measured against a benchmark. The PBR was reviewed annually. In 2002, the Citizen's Utility Board (CUB) filed a suit to reopen an ICC review of the PBR that initially found the company's actions relating the PBR to be appropriate. The Cook County State's Attorney's Office (CCSAO) and the Illinois Attorney General also intervened in the proceedings. Since that time, the interveners and ICC staff alleged that the company had improperly accounted for natural gas prices.

While the outcome of these proceedings cannot be predicted at this time, Fitch notes that two interveners in the case are recommending that Nicor Gas repay \$190 million to ratepayers, while the latest ICC staff's recommendation is for the company to refund \$108 million. In 2002, the Nicor board of directors performed an internal review of the PBR and determined that the PBR should be eliminated as of Jan 1, 2003, and as a result of this review the company recorded a \$24.8 million liability including a loss reserve of \$4.1 million. Subsequently, the liability has been increased to \$26.6 million. The company submitted direct written testimony on the topic in April 2007. In its testimony the company seeks a reimbursement of \$6.0 million. A hearing

schedule has yet to be established. Fitch anticipates that Nicor Gas could make a one-time payment as large as the \$190 million currently recommended by the interveners without affecting ratings. However, the financial ramifications of any additional punitive actions could have rating implications.

■ **Liquidity and Debt Structure**

Nicor and Nicor Gas have access to short-term liquidity through a \$600 million credit facility that expires in September 2010. Nicor can borrow up to \$300 million, while Nicor Gas is able to draw down on the full amount. The facility is primarily used as commercial paper (CP) backup. As of June 30, 2007, there were no drawings under the line and no CP outstanding. During the winter season in recent years, Nicor Gas has had access to \$400 million, 210-day seasonal revolvers, all of which expired by May of the given years.

Capital expenditures at the utility are projected to be relatively flat over the next several years, averaging \$175 million per year through 2009, which in large part will be financed from operating cash flow. Debt maturities for Nicor Gas over next five years are modest and are as follows: \$0 in 2007, \$75 million in 2008, \$50 million in 2009, \$0 in 2010 and \$75 million in 2011.

Financial Summary — Northern Illinois Gas Company

(\$ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/2007	2006	2005	2004	2003	2002
Fundamental Ratios (x)						
FFO/Interest Expense	5.7	6.3	4.0	7.6	9.7	8.7
CFO/Interest Expense	4.3	8.4	3.7	8.6	(0.4)	7.0
Debt/FFO	2.3	3.6	7.8	3.5	3.3	2.9
Operating EBIT/Interest Expense	2.7	2.6	2.7	3.4	4.0	4.9
Operating EBITDA/Interest Expense	6.2	6.2	6.3	7.4	7.9	8.6
Debt/Operating EBITDA	1.7	3.1	3.6	3.2	3.7	2.6
Common Dividend Payout (%)	98.1	80.3	69.3	87.1	85.9	100.3
Internal Cash/Capital Expenditures (%)	58.0	174.9	42.7	129.2	(71.5)	66.3
Capital Expenditures/Depreciation (%)	97.7	102.6	121.8	119.8	120.5	123.2
Profitability						
Revenues	2,543	2,452	2,910	2,364	2,352	1,595
Net Revenues	720	709	697	669	659	625
Operating and Maintenance Expense	266	267	254	234	220	200
Operating EBITDA	289	278	273	277	292	316
Depreciation and Amortization Exp.	163	160	155	149	144	138
Operating EBIT	126	118	118	128	148	178
Gross Interest Expense	46	45	43	38	37	37
Net Income for Common	63	59	53	62	83	109
Oper. Maint. Exp. % of Net Revenues	36.9	37.7	36.4	34.9	33.4	32.0
Operating EBIT % of Net Revenues	17.5	16.7	16.9	19.1	22.5	28.5
Cash Flow						
Cash Flow from Operations	155	335	117	284	(52)	222
Change in Working Capital	(64)	96	(10)	36	(376)	(63)
Funds from Operations	219	239	128	248	323	284
Dividends	(62)	(47)	(37)	(54)	(71)	(109)
Capital Expenditures	(159)	(164)	(188)	(178)	(173)	(170)
Free Cash Flow	(67)	123	(108)	52	(297)	(57)
Net Other Investment Cash Flow	114	9	4	104	18	0
Net Change in Debt	0	(141)	115	(201)	255	98
Net Change in Equity	0	0	0	0	0	0
Capital Structure						
Short-Term Debt	0	350	490	375	575	315
Long-Term Debt	501	502	500	500	501	502
Total Debt	501	852	990	875	1,076	817
Preferred and Minority Equity	1	1	1	1	1	1
Common Equity	677	661	655	638	625	608
Total Capital	1,180	1,514	1,647	1,515	1,702	1,426
Total Debt/Total Capital (%)	42.5	56.2	60.2	57.8	63.2	57.3
Preferred and Minority Eq./Total Capital (%)	0.1	0.1	0.1	0.1	0.1	0.1
Common Equity/Total Capital (%)	57.4	43.7	39.8	42.1	36.7	42.6

LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense. Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense. FFO – Funds from operations. FCF – Free cash flow. Notes: Numbers may not add due to rounding. Numbers are adjusted for interest and principal payments on transition property securitization certificates. Long term debt includes trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, VA.

**Global Power/North America
Credit Update**

Nicor Inc.

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Long-Term IDR	A	NR	12/6/05
Short Term IDR	F1	NR	12/6/05
Sr. Unsec. Debt	A	A+	6/29/04
Trust Preferred	A-	A	6/29/04
Commercial Paper	F1	F1+	11/5/02

IDR – Issuer default rating. NR – Not rated.

Rating Watch..... None
Rating Outlook..... Stable

Analysts

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Profile

Nicor owns Nicor Gas, a natural gas local distribution company, and Tropical Shipping, an ocean transport services provider in the Caribbean. Nicor also owns nonregulated energy-related entities, including asset-backed energy ventures, storage and transmission services, wholesale gas marketing and the Horizon Pipeline, as well as retail energy-related products and services.

Related Research

- Nicor Gas Company, Credit Update, August 15, 2007.

Key Credit Strengths

- Solid credit-protection measures.
- Ownership of a regulated natural gas distribution company.

Key Credit Concerns

- Contentious regulatory and political environment in Illinois.
- Cash flow at Tropical Shipping subject to cyclic variation.
- Possible negative outcome of review of former natural gas procurement activities at Nicor Gas.
- PBR investigation.

August 15, 2007

Rating Rationale

On July 5, 2007, Fitch Ratings affirmed Nicor Inc.'s (Nicor, issuer default rating [IDR] 'A') ratings and Nicor Gas Company's (Nicor Gas, IDR 'A') long-term ratings and revised Nicor Gas' short-term IDR and commercial paper rating to 'F1' from 'F1+'. The revision of Nicor Gas' short-term ratings reflects a methodology revision by Fitch in short-term and long-term rating linkage practices. Fitch now excludes loss severity analysis from short-term ratings assigned to instruments. The short-term rating revision does not reflect any change in the credit profile of Nicor Gas. Please see Fitch criteria report, "Short-Term Ratings Criteria for Corporate Finance," dated June 12, 2007, for a description of Fitch's short-term ratings methodology.

The ratings of Nicor are primarily based on the strong credit profile of its natural gas distribution subsidiary, Nicor Gas, as well as strong earnings from its Tropical Shipping Co. (Tropical Shipping) business. Consolidated credit metrics are strong relative to peers, with funds from operations coverage at 6.8 times (x), and the ratio of total long-term debt-to-EBITDA at 1.3x for the 12 months ended June 30, 2007.

Nicor Gas benefits from stable regulated earnings and cash flow as well as a history of strong operating performance. In 2006, the gas utility accounted for more than 60% of consolidated operating income.

Rating concerns surrounding Nicor and Nicor Gas primarily relate to possible negative financial implications of an ongoing investigation into a performance-based rate (PBR) plan that was in place at Nicor Gas from 2000 through 2002 as well as the heightened political and regulatory risk in Illinois.

Nicor's second-largest business, Tropical Shipping, a containerized freight transportation company, accounts for approximately 25% of consolidated operating income of \$47.5 million. Tropical Shipping is consistently profitable, generates excess cash and benefits from a strong market position as the largest shipper in the markets it serves. While earnings at Tropical Shipping are expected to remain steady in the near term, the segment remains highly exposed to economic cyclicality and could be adversely affected by downturns in Caribbean tourism.

Recent Developments

In March 2007, the U.S. Securities and Exchange Commission (SEC) approved a settlement between Nicor and the SEC's Division of Enforcement concerning allegations of improper accounting of natural gas costs by Nicor under the terminated PBR plan. Pursuant to this settlement, Nicor paid the SEC a fine of \$10 million.

Nicor Gas remains negatively exposed to allegations of misconduct under the PBR, which the Illinois Commerce Commission (ICC) and the Illinois Attorney General's Office (IAGO) continue to investigate. In 2000, the ICC put in place an incentive fuel cost mechanism through which the company would share equally any cost savings from gas procurement as measured against a benchmark. The PBR was reviewed annually. In 2002, the Citizen's Utility Board (CUB) filed a suit to reopen an ICC review of the PBR that initially found the company's actions relating the PBR to be appropriate. The Cook County State's Attorney's Office (CCSAO) and the Illinois Attorney General also intervened in the proceedings. Since that time, the interveners and ICC staff alleged that the company had improperly accounted for natural gas prices.

While the outcome of these proceedings cannot be predicted at this time, Fitch notes that two interveners in the case are recommending that Nicor Gas repay \$190 million to ratepayers, while the latest ICC staff's recommendation is for the company to refund \$108 million. In 2002, the Nicor board of directors performed an internal review of the PBR and determined that the PBR should be eliminated as of Jan. 1, 2003 and as a result of this review the company recorded a \$24.8 million liability including a loss reserve of \$4.1 million. Subsequently, the liability has been increased to \$26.6 million. The company submitted direct written testimony on the

topic in April 2007. In its testimony the company seeks a reimbursement of \$6.0 million. A hearing schedule has yet to be established. Fitch anticipates that Nicor Gas could make a one-time payment as large as the \$190 million currently recommended by the interveners without affecting ratings. However, the financial ramifications of any additional punitive actions could have rating implications.

■ **Liquidity and Debt Structure**

Nicor and Nicor Gas have access to short-term liquidity through a \$600 million credit facility that expires in September 2010. Nicor can borrow up to \$300 million, while Nicor Gas is able to draw down on the full amount. The facility is primarily used as commercial paper (CP) backup. As of June 30, 2007, there were no drawings under the line and no CP outstanding. During the winter season in recent years, Nicor Gas has had access to \$400 million, 210-day seasonal revolvers, all of which expired by May of the given years.

Capital expenditures at the utility are projected to be relatively flat over the next several years, averaging \$175 million per year through 2009, which in large part will be financed from operating cash flow. Debt maturities for Nicor Gas over the next five years are modest and are as follows: \$0 in 2007, \$75 million in 2008, \$50 million in 2009, \$0 in 2010 and \$75 million in 2011.

Financial Summary — Nicor Inc.

(\$ Mil., Fiscal Years Ended Dec. 31)

	LTM 6/30/2007	2006	2005	2004	2003	2002
Fundamental Ratios (x)						
FFO/Interest Expense	6.8	7.3	6.1	7.7	10.9	9.5
CFO/Interest Expense	5.5	10.0	5.3	8.6	0.7	7.9
Debt/FFO	1.8	2.7	4.6	3.5	2.9	2.4
Operating EBIT/Interest Expense	4.4	4.1	3.6	4.1	4.6	5.0
Operating EBITDA/Interest Expense	7.7	7.3	6.8	7.7	8.4	8.5
Debt/Operating EBITDA	1.3	2.3	3.4	3.1	3.4	2.5
Common Dividend Payout (%)	59.1	64.6	60.2	109.2	77.8	63.1
Internal Cash/Capital Expenditures (%)	76.1	194.3	61.5	123.8	(52.1)	97.5
Capital Expenditures/Depreciation (%)	111.5	117.1	130.7	128.0	126.3	139.9
Profitability						
Revenues	3,081	2,960	3,358	2,740	2,663	1,897
Net Revenues	1,258	1,216	1,145	1,045	970	927
Operating and Maintenance Expense	267	269	255	235	220	200
Operating EBITDA	379	366	326	319	315	331
Depreciation and Amortization Exp.	163	160	155	149	144	138
Operating EBIT	217	206	172	170	171	193
Gross Interest Expense	49	50	48	42	38	39
Net Income for Common	141	128	136	75	105	128
Operating Maint. Exp. % of Net Revenues	21.2	22.1	22.2	22.5	22.7	21.5
Operating EBIT % of Net Revenues	17.2	16.9	15.0	16.3	17.6	20.9
Cash Flow						
Cash Flow from Operations	222	447	206	318	(13)	268
Change in Working Capital	(63)	134	(36)	37	(386)	(63)
Funds from Operations	284	313	243	281	373	332
Dividends	(83)	(83)	(82)	(82)	(82)	(81)
Capital Expenditures	(182)	(187)	(202)	(190)	(181)	(193)
Free Cash Flow	(43)	177	(78)	45	(276)	(5)
Net Other Investment Cash Flow	(13)	(5)	44	(14)	5	18
Net Change in Debt	(23)	(276)	135	(85)	255	88
Net Change in Equity	24	23	1	1	(2)	(27)
Capital Structure						
Short-Term Debt	0	350	586	490	575	315
Long-Term Debt	498	498	536	497	497	496
Total Debt	498	848	1,122	987	1,072	811
Preferred and Minority Equity	0	0	0	0	0	4
Common Equity	916	873	811	749	755	728
Total Capital	1,415	1,721	1,934	1,736	1,827	1,544
Total Debt/Total Capital (%)	35.2	49.3	58.0	56.9	58.7	52.5
Preferred and Minority Eq./Total Capital (%)	0.0	0.0	0.0	0.0	0.0	0.3
Common Equity/Total Capital (%)	64.8	50.7	42.0	43.1	41.3	47.2

LTM – Latest 12 months. Operating EBIT – Operating income plus total reported state and federal income tax expense. Operating EBITDA – Operating income plus total reported state and federal income tax expense plus depreciation and amortization expense. FFO – Funds from operations. FCF – Free cash flow. Notes: Numbers may not add due to rounding. Numbers are adjusted for interest and principal payments on transition property securitization certificates. Long term debt includes trust preferred securities. Source: Financial data obtained from SNL Energy Information System, provided under license by SNL Financial, LC of Charlottesville, VA.

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08-Nov-2007

Primary Credit Analyst:Ralph A DeCesare, CFA, New York (1) 212-438-4682;
ralph_decesare@standardandpoors.com**Credit Rating:** AA/Negative/A-1+**Rationale**

The rating on Naperville, Ill.-based Nicor Inc. reflects the consolidated credit profile of its principal subsidiary, natural gas utility Nicor Gas Co. (roughly 75% of cash flow in 2006), its containerized shipping unit, Tropical Shipping (17%), and smaller unregulated energy-related ventures (8%). As of Sept. 30, 2007, Nicor had about \$660 million in debt. The outlook is negative.

Nicor's creditworthiness reflects a strong business profile of '3' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)) and certain financial parameters that are appropriate for the rating.

Nicor's business position is characterized by a large, stable, residential and commercial customer base that exceeds 2.1 million customers and has demonstrated sustainable growth, low costs and rates, a diverse supply portfolio that includes substantial gas storage, solid operations, and favorable competitive standing. These strengths are tempered somewhat by Nicor's investment in higher-risk, unregulated operations and regulatory uncertainties. On a stand-alone basis, Nicor Gas has a slightly weaker financial condition than its parent, but its business profile is excellent ('2'), reflecting the absence of unregulated businesses. Nicor Gas' business profile also encompasses the aforementioned strengths.

Of concern is the Illinois Commerce Commission's ongoing review of Nicor Gas' performance-based rate (PBR) plan during 2000 through 2002. Various intervening parties have testified about cost adjustments ranging from \$108 million to \$190 million. In addition, gas supply costs are open to the risk of retroactive prudence reviews by the commission, with 1999-2006 open for review. Potential financial penalties in excess of the \$190 million, if they occur, may push the funds from operations (FFO) to debt and debt to capital financial metrics out of an acceptable range for the mid-'AA'-rating.

Nicor has a modest financial risk profile, with bondholder protection measures that are strong for the rating. For the 12 months ended Sept. 30, 2007, adjusted FFO interest coverage and FFO to total debt increased to 4.2x and 41.1%, respectively, from 3.5x and 21.1% a year earlier. Total consolidated adjusted debt to capital was 49% as of Sept. 30, 2007, down from 54.9% the previous year. While total debt levels were flat year over year, FFO benefited from lower gas prices, a full year with the late-2005 rate increase, and no deferred tax payments seen in the last two years. Debt to capital improved due to higher equity levels from a retained earnings increase of about \$55 million and a modest increase in common stock outstanding. Much of Nicor's debt is seasonal and is paid down as the winter heating season ends and revenues outpace expenses. Financial ratios are expected to stay at these levels for the foreseeable future, barring any significantly adverse regulatory decisions. Nicor has benefited from generally lower gas prices in the past year, which makes less of a claim on its liquidity and debt levels over the course of the year.

Short-term credit factors

Nicor and Nicor Gas have 'A-1+' short-term corporate credit and commercial paper ratings. Liquidity should remain adequate, despite the seasonal nature of the gas distribution business. Cash requirements typically increase in the last half of the year due to increases in natural gas purchases, gas in storage, and accounts receivable. During the first half of the year, positive cash flow generally results from the sale of gas in storage and the collection of accounts receivable. This cash is typically used to substantially reduce short-term debt, which is incurred to purchase gas in anticipation of the winter heating season, to near zero during the first half of the year.

Given the low-risk nature of Nicor Gas' regulated utility operations and healthy service territory, the company should generate reasonably stable cash flow during the annual cycle. Standard & Poor's Ratings Services expects that consolidated funds flow from operations should cover the bulk of dividends and forecasted capital outlays of about \$200 million in 2007, as well as 2008 when capital spending should be about \$215 million. This is assuming reasonable resolution of outstanding regulatory issues.

As of Sept. 30, 2007, Nicor had \$35.9 million of cash and cash equivalents and \$40.2 million of liquid short-term investments.

Nicor currently maintains a five-year revolving credit agreement totaling \$600 million that expires in September 2010. In October 2007, Nicor Inc. entered into a new \$400 million, 210-day seasonal revolver expiring in May 2008. The additional liquidity, which is available to Nicor Gas, was added to accommodate short-term borrowing requirements associated with the need to procure natural gas, particularly to fill storage fields. A similar seasonal bank line was arranged for last year as well.

The \$1 billion in bank facilities serve as backup for the issuance of commercial paper, accommodating short-term borrowing needs primarily associated with purchasing natural gas and supporting storage inventory for delivery to its customers during the winter. The company had \$162 million in commercial paper outstanding as of September 2007. To comply with the covenants in the credit agreement, total debt to capitalization cannot exceed 70%. As of Sept. 30, 2007, the company was comfortably in compliance with its debt covenants. The bank agreements do not contain material adverse change clauses or rating triggers. However, downgrades below investment grade could result in the Nicor companies having to post collateral. Standard & Poor's does not consider this a serious concern, given the corporate credit ratings on Nicor and Nicor Gas.

Nicor has no long-term debt and Nicor Gas' next maturity of \$75 million comes due in August 2008.

Outlook

The negative outlook on Nicor reflects uncertainties regarding outstanding regulatory issues related to Nicor Gas' PBR and purchased gas-adjustment clause. Harsh financial penalties may push bondholder protection parameters out of levels suitable for mid-'AA'-ratings. Resolution of outstanding challenges that results in manageable penalties would likely lead to ratings stability.

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**STANDARD
& POOR'S****RatingsDirect®****RESEARCH****Nicor Inc.****Publication date:**

24-Apr-2007

Primary Credit Analyst:Barbara A Eiseman, New York (1) 212-438-7666;
barbara_eiseman@standardandpoors.com**Major Rating Factors****Strengths:**

- Excellent competitive position,
- Strategic location with access to eight interstate pipelines,
- A diverse supply portfolio that includes substantial underground storage assets,
- Solid operations, and
- A currently healthy financial profile.

Corporate Credit Rating

AA/Negative/A-1+

Weaknesses:

- Potential for financial penalties relating to review of Nicor Gas' performance-based rate plan,
- Gas supply costs open to risk of hindsight prudence reviews by regulators; 1999-2006 remain open for review,
- Profitability challenged by increasing expenses, relatively high gas prices and volatility, and bad debt expense, and
- Investment in riskier affiliates.

Rationale

The ratings on Naperville, Ill.-based Nicor Inc. reflect the consolidated credit profile of its principal subsidiary, natural gas utility Nicor Gas Co. (roughly 63% of operating income), its containerized shipping unit, Tropical Shipping (24%), and smaller unregulated ventures that are energy related (13%) in 2006.

Nicor's creditworthiness reflects a strong business profile at '3' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)) and certain financial parameters that until recently had been weak for the rating level. Financial improvement can be traced to continuing cost containment, better operating results in all business segments, higher equity investment income, benefits resulting from reorganization of certain shipping and related activities, and the full realization of rate relief granted in the fall of 2005.

Nicor's business position is characterized by a large stable residential and commercial customer base that has demonstrated sustainable growth, low costs and rates, a diverse supply portfolio that includes substantial gas storage, solid operations, and favorable competitive standing. These strengths are tempered somewhat by Nicor's investment in higher-risk unregulated operations and regulatory uncertainties. On a stand-alone basis, Nicor Gas has a slightly weaker financial condition than its parent but its business profile is excellent ('2'), reflecting the absence of unregulated businesses, and encompassing the aforementioned strengths.

However, given the currently highly politicized climate in Illinois and volatile commodity prices, Nicor's exposure to various proceedings may be elevated. Of credit concern is the Illinois Commerce Commission's review of Nicor Gas' performance-based rate (PBR) plan during 2000 through 2002. Various intervening parties have filed testimony, alleging adjustments ranging from \$108 million to \$190 million. In addition, gas supply costs are open to the risk of hindsight prudence reviews by the commission, with 1999-2006 open for review. Potentially severe financial penalties may push certain key financial metrics out of an acceptable range for the mid 'AA' rating category.

Nicor's bondholder protection measures, which had been experiencing a declining trend, rebounded in 2006 due to the aforementioned factors. In this regard, adjusted funds from operations (FFO) interest coverage and FFO to total debt rose to

5.2x and 28%, respectively, from 4.8x and 19.6% in 2005, which had eroded due to various one-time events and higher operations and maintenance and bad debt expense. Total consolidated adjusted debt to capital stood at 52% at the end of 2006. The bulk of Nicor's debt is seasonal and is paid down as the winter heating season ends and revenues outpace expenses. In this regard, total debt to capital as of Sept. 30, 2006 and June 30, 2006 was a more conservative 48% and 43%, respectively. Therefore, when year-end balances are adjusted for gas inventories, debt leverage is more suitable for the rating level.

Short-term credit factors

Nicor and Nicor Gas have 'A-1+' short-term corporate credit and commercial paper ratings. Liquidity should remain adequate, despite the seasonal nature of the gas distribution business. Cash requirements typically increase in the last half of the year due to increases in natural gas purchases, gas in storage, and accounts receivable. During the first half of the year, positive cash flow generally results from the sale of gas in storage and the collection of accounts receivable. This cash is typically used to substantially reduce short-term debt, which is incurred to purchase gas in anticipation of the winter heating season, to near zero during the first half of the year.

Given the low-risk nature of Nicor Gas' regulated utility operations and healthy service territory, the company should generate reasonably stable cash flow. Standard & Poor's expects that consolidated funds flow from operations should cover the bulk of dividends and forecasted capital outlays of about \$200 million in 2007, assuming reasonable resolution of outstanding regulatory issues.

As of Dec. 31, 2006, Nicor had \$41.1 million of cash and cash equivalents and \$16.3 million of liquid short-term investments.

Nicor currently maintains a five-year revolving credit agreement totaling \$600 million that expires in September 2010. In October 2006, Nicor Gas entered into a new \$400 million 210-day seasonal revolver expiring in May 2007. The additional liquidity was added to accommodate Nicor Gas' short-term borrowing requirements associated with the need to procure natural gas, particularly to fill storage fields.

The bank facilities serve as backup for the issuance of commercial paper, accommodating short-term borrowing needs primarily associated with purchasing natural gas and supporting storage inventory for delivery to its customers during the winter. The company had \$350 million of commercial paper outstanding at the end of 2006. To comply with the covenants in the credit agreement, total debt to capitalization can't exceed 70%. As of Dec. 31, 2006, the company was comfortably in compliance with its debt covenants. The bank agreements do not contain material adverse change clauses or rating triggers. However, downgrades below investment grade could result in the Nicor companies having to post collateral. Standard & Poor's doesn't consider this a serious concern, given the lofty corporate credit ratings on Nicor and Nicor Gas.

Nicor has no long-term debt and Nicor Gas' next maturity of \$75 million comes due in August 2008.

As permitted by the American Jobs Creation Act of 2004, in December 2005, Nicor repatriated \$132 million of previously undistributed earnings. The repatriation was funded by cash available from foreign subsidiaries and proceeds received by Tropical in connection with the late-2005 issuance of a \$40 million, two-year unsecured term loan. The loan was fully paid off as of Dec. 31, 2006.

Outlook

The negative outlook on Nicor reflects uncertainties regarding outstanding regulatory issues related to Nicor Gas' PBR and purchased gas adjustment clause. Harsh financial penalties may push bondholder protection parameters out of levels suitable for mid 'AA' ratings. Resolution of outstanding challenges that results in manageable penalties would likely lead to ratings stability.

Accounting

Nicor reports its financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by Nicor's independent auditor, Deloitte & Touche LLP, in the most recent annual audited period.

Effective January 2006, the company reorganized certain shipping and related operations to take advantage of certain provisions of the Jobs Act that provide the opportunity for tax savings subsequent to the date of the reorganization. Through the end of 2006, an income tax expense had not been provided on about \$29 million of foreign company shipping earnings that are expected to be indefinitely reinvested offshore. Nicor has not recorded deferred income taxes of about \$28 million on \$81 million of cumulative undistributed foreign earnings that management expects to be indefinitely reinvested offshore.

In December 2005, Nicor repatriated \$132 million of cumulative undistributed earnings.

In 2005, the IRS revised the regulations pertaining to the tax accounting method. The new regulations required repayment in 2005 and 2006 of amounts previously taken as current tax deductions. During 2006 and 2005, the company reclassified income tax expense from deferred to current and repaid approximately \$135 million equally over those years.

Under FIN 47 (accounting for conditional asset retirement obligations), Nicor recognized asset retirement obligation of \$170.6 million as of Dec. 31, 2006.

Because Nicor has a relatively clean balance sheet, Standard & Poor's adjustments to the company's reported financial information are limited. Standard & Poor's adjusts Nicor's financial statements for operating leases, calculating an off-balance-sheet obligation (OBS) amount for debt, interest expense, and depreciation and including these amounts in our adjusted ratios. The present value of the company's operating leases is determined using a 5.1% discount rate, which is the company's average cost of debt in 2006, and is treated as a debt equivalent. We included \$81.2 million of OBS debt related to operating releases in Nicor's adjusted ratios as of Dec. 31, 2006, and \$4.7 million for imputed interest and \$28.7 million for depreciation. Standard & Poor's also makes adjustments for post-retirement obligations in its calculation of financial statistics.

Nicor has issued guarantees on behalf of its affiliates, guaranteeing payment by the affiliates under various contracts relating to physical and financial transactions in energy commodities and related services, and operating lease obligations. Given the history of Nicor's affiliate credit support, Standard & Poor's does not anticipate any call on these contingent obligations, but does stress the financial statements for analytical purposes to evaluate the company's strength and flexibility.

Because the bulk of Nicor Gas' short-term debt is seasonal, supported by inventory holdings and accounts receivables and liquidated by the conversion of these assets to cash, Standard & Poor's does not consider all of the short-term debt to be part of the company's permanent capital structure. Hence, the adjusted total debt to total capitalization ratio of 52.1% as of Dec. 31, 2006, somewhat overstates, for analytical purposes, the company's total debt leverage.

Table 1

Nicor Inc. Peer Comparison*

	--Average of past three fiscal years--			
	Nicor Inc.	Northwest Natural Gas Co.	WGL Holdings Inc.	Peoples Energy Corp.
Corporate credit rating	AA/Negative/A-1+	AA-/Stable/A-1+	AA-/Negative/A-1	A-/Negative/A-2
(Mil. \$)				
Revenues	3,019.2	877.1	2,304.6	2,625.9
Net income from cont. oper.	113.2	57.4	98.3	43.9
Funds from operations (FFO)	259.1	127.9	220.0	185.2
Capital expenditures	228.2	122.4	129.2	234.0
Cash and investments	69.1	6.1	5.3	61.7
Debt	1,138.6	712.9	948.8	1,082.2
Preferred stock	-	-	28.2	-
Common equity	750.5	557.8	709.5	723.5
Total capital	1,889.1	1,270.7	1,686.5	1,805.7
Adjusted ratios				
EBIT interest coverage (x)	3.8	3.3	4.4	2.8
FFO int. cov. (x)	5.2	4.1	5.6	4.3
FFO/debt (%)	22.8	17.9	23.2	17.1
Discretionary cash flow/debt (%)	3.2	(5.9)	0.6	(6.6)
Net cash flow/capital expenditures (%)	77.5	74.6	120.7	44.2
Debt/total capital (%)	60.3	56.1	56.3	59.9
Return on common equity (%)	14.2	9.9	11.2	5.2
Common dividend payout ratio (un-adj.) (%)	72.8	63.8	65.5	186.3

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*Fully adjusted (including postretirement obligations).

Table 2

Nicor Inc. Financial Summary*

	--Fiscal year ended Dec. 31--				
	2006	2005	2004	2003	2002
Rating history	AA/Negative/A-1+	AA/Negative/A-1+	AA/Negative/A-1+	AA/Stable/A-1+	AA/Watch Neg/A-1+
(Mil. \$)					
Revenues	2,960.0	3,357.8	2,739.7	2,662.7	1,897.4
Net income from continuing operations	128.3	136.3	75.1	109.7	127.8
Funds from operations (FFO)	263.2	233.6	280.6	404.9	365.3
Capital expenditures	191.6	257.6	235.5	206.9	214.3
Cash and investments	67.6	126.9	12.9	83.2	100.9
Debt	1,060.6	1,257.3	1,097.7	1,154.1	899.9
Common equity	872.6	725.5	653.4	656.6	611.7
Total capital	1,933.2	1,982.8	1,751.2	1,810.7	1,511.6
Adjusted ratios					
EBIT interest coverage (x)	3.8	3.7	4.1	5.5	5.2
FFO int. cov. (x)	4.4	4.8	6.9	11.0	9.5
FFO/debt (%)	24.8	18.6	25.6	35.1	40.6
Discretionary cash flow/debt (%)	18.6	(8.5)	1.8	(24.8)	(0.8)
Net cash flow/capital expenditures (%)	94.1	58.8	84.3	156.2	132.9
Debt/total capital (%)	54.9	63.4	62.7	63.7	59.5
Return on common equity (%)	15.2	17.3	9.9	14.8	17.8
Common dividend payout ratio (un-adj.) (%)	64.9	60.2	109.2	74.5	63.0

*Fully adjusted (including postretirement obligations).

Table 3 | View Expanded Table

Reconciliation Of Nicor Inc. 2006 Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)*

Nicor Inc. reported amounts

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations
Reported	848.1	372.6	372.6	212.5	49.1	447.0
Standard & Poor's adjustments						
Operating leases	81.2	33.5	4.7	4.7	4.7	28.7
Postretirement benefit obligations	20.5	(4.2)	(4.2)	(4.2)	--	2.6
Capitalized interest	--	--	--	--	0.7	(0.7)
Share-based compensation expense	--	--	3.4	--	--	--
Asset retirement obligations	110.9	9.5	9.5	9.5	9.5	(5.5)
Reclassification of nonoperating income (expenses)	--	--	--	20.7	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--
Total adjustments	212.5	38.8	13.4	30.7	14.9	25.1

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations
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Adjusted	1,060.6	411.4	386.0	243.2	64.0	472.1
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*Nicor Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of 24-Apr-2007)***Nicor Inc.**

Corporate Credit Rating	AA/Negative/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Preferred Stock	
<i>Local Currency</i>	A+
Senior Unsecured	
<i>Local Currency</i>	AA-

Corporate Credit Ratings History

08-Dec-2004	AA/Negative/A-1+
15-Apr-2003	AA/Stable/A-1+
22-Jul-2002	AA/Watch Neg/A-1+

Business Risk Profile1 2 **3** 4 5 6 7 8 9 10**Financial Risk Profile**

Modest

Related Entities**Nicor Gas Co.**

Issuer Credit Rating	AA/Negative/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1+
Senior Secured	
<i>Local Currency</i>	AA
Senior Unsecured	
<i>Local Currency</i>	AA-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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**STANDARD
& POOR'S****RatingsDirect®****RESEARCH****Summary:****Nicor Gas Co.****Publication date:**

08-Nov-2007

Primary Credit Analyst:Ralph A DeCesare, CFA, New York (1) 212-438-4682;
ralph_decesare@standardandpoors.com**Credit Rating:** AA/Negative/A-1+**Rationale**

The rating on Naperville, Ill.-based Nicor Gas Co. (a/k/a Northern Illinois Gas Co.) reflects the consolidated credit profile of its parent, Nicor Inc. (Nicor). Nicor consists of its principal subsidiary, natural gas utility Nicor Gas Co. (roughly 75% of cash flow in 2006), its containerized shipping unit, Tropical Shipping (17%), and smaller unregulated energy-related ventures (8%). As of Sept. 30, 2007, Nicor had about \$660 million in debt. The outlook is negative.

Nicor's creditworthiness reflects a strong business profile of '3' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)) and certain financial parameters that are appropriate for the rating.

Nicor's business position is characterized by a large, stable, residential and commercial customer base that exceeds 2.1 million customers and has demonstrated sustainable growth, low costs and rates, a diverse supply portfolio that includes substantial gas storage of about 150 billion cubic feet in annual capacity, solid operations, and favorable competitive standing. These strengths are tempered somewhat by Nicor's investment in higher-risk, unregulated operations and regulatory uncertainties. On a stand-alone basis, Nicor Gas has a slightly weaker financial condition than its parent, but its business profile is excellent ('2'), reflecting the absence of unregulated businesses. Nicor Gas' business profile also encompasses the aforementioned strengths. Nicor Gas received a base rate increase in late 2005 for \$54.2 million (which was lowered to \$49.7 million in April 2006), for an ROE of about 10.5%, near the industry average. Nicor Gas passes through the cost of gas to its customers, with monthly price changes that are subject to an annual prudency review.

Of concern is the Illinois Commerce Commission's review of Nicor Gas' performance-based rate (PBR) plan during 2000 through 2002. Various intervening parties have testified about cost adjustments ranging from \$108 million to \$190 million. In addition, gas supply costs are open to the risk of hindsight prudence reviews by the commission, with 1999-2006 open for review. Potential financial penalties in excess of the \$190 million, if they occur, may push the funds from operations (FFO) to debt and debt to capital financial metrics out of an acceptable range for the mid-'AA'-rating.

Nicor has a modest financial risk profile, with bondholder protection measures that are strong for the rating. For the 12 months ended Sept. 30, 2007, adjusted FFO interest coverage and FFO to total debt increased to 4.2x and 41.1%, respectively, from 3.5x and 21.1% a year earlier. Total consolidated adjusted debt to capital was 49% as of Sept. 30, 2007, down from 54.9% the previous year. While total debt levels were flat year over year, FFO benefited from lower gas prices, a full year with the late-2005 rate increase, and no deferred tax payments in the last two years. Debt to capital improved due to higher equity levels from a retained earnings increase of about \$55 million and a modest increase in common stock outstanding. Much of Nicor's debt is seasonal and is paid down as the winter heating season ends and revenues outpace expenses. Financial ratios are expected to stay at these levels for the foreseeable future, barring any significantly adverse regulatory decisions. Nicor has benefited from generally lower gas prices in the past year, which makes less of a claim on its liquidity and debt levels over the course of the year.

Short-term credit factors

Nicor and Nicor Gas have 'A-1+' short-term corporate credit and commercial paper ratings. Liquidity should remain adequate, despite the seasonal nature of the gas distribution business. Cash requirements typically increase in the last half of the year due to increases in natural gas purchases, gas in storage, and accounts receivable. During the first half of the year, positive cash flow generally results from the sale of gas in storage and the collection of accounts receivable. This cash

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is typically used to substantially reduce short-term debt, which is incurred to purchase gas in anticipation of the winter heating season, to near zero during the first half of the year.

Given the low-risk nature of Nicor Gas' regulated utility operations and healthy service territory, the company should generate reasonably stable cash flow during the annual cycle. Standard & Poor's Ratings Services expects that consolidated funds flow from operations should cover the bulk of dividends and forecasted capital outlays of about \$200 million in 2007, as well as 2008 when capital spending should be about \$215 million. This is assuming reasonable resolution of outstanding regulatory issues.

As of Sept. 30, 2007, Nicor had \$35.9 million of cash and cash equivalents and \$40.2 million of liquid short-term investments.

Nicor currently maintains a five-year revolving credit agreement totaling \$600 million that expires in September 2010. In October 2007, Nicor Inc. entered into a new \$400 million, 210-day seasonal revolver expiring in May 2008. The additional liquidity, which is available to Nicor Gas, was added to accommodate short-term borrowing requirements associated with the need to procure natural gas, particularly to fill storage fields. A similar seasonal bank line was arranged for last year as well.

The \$1 billion in bank facilities serves as backup for the issuance of commercial paper, accommodating short-term borrowing needs primarily associated with purchasing natural gas and supporting storage inventory for delivery to its customers during the winter. The company had \$162 million in commercial paper outstanding as of Sept. 30, 2007. To comply with the covenants in the credit agreement, total debt to capitalization cannot exceed 70%. As of Sept. 30, 2007, the company was comfortably in compliance with its debt covenants. The bank agreements do not contain material adverse change clauses or rating triggers. However, downgrades below investment grade could result in the Nicor companies having to post collateral. Standard & Poor's does not consider this a serious concern, given the corporate credit ratings on Nicor and Nicor Gas.

Nicor has no long-term debt and Nicor Gas' next maturity of \$75 million comes due in August 2008.

Outlook

The negative outlook on Nicor reflects uncertainties regarding outstanding regulatory issues related to Nicor Gas' PBR and purchased gas-adjustment clause. Harsh financial penalties may push bondholder protection parameters out of levels suitable for mid-'AA' ratings. Resolution of outstanding challenges that results in manageable penalties would likely lead to ratings stability.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

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**STANDARD
& POOR'S****RatingsDirect®****RESEARCH****Nicor Gas Co.****Publication date:**

24-Apr-2007

Primary Credit Analyst:Barbara A Eiseman, New York (1) 212-438-7666;
barbara_eiseman@standardandpoors.com**Major Rating Factors****Strengths:**

- Excellent competitive position,
- Strategic location with access to eight interstate pipelines,
- A diverse supply portfolio that includes substantial underground storage assets,
- Solid operations, and
- A currently healthy financial profile.

Corporate Credit Rating

AA/Negative/A-1+

View Recovery Ratings >>**Weaknesses:**

- Potential for financial penalties relating to review of Nicor Gas' performance-based rate plan,
- Gas supply costs open to risk of hindsight prudence reviews by regulators; 1999-2006 remain open for review.
- Profitability challenged by increasing expenses, relatively high gas prices and volatility, and bad debt expense, and
- Parent Nicor's investment in riskier affiliates.

Rationale

The ratings on Naperville, Ill.-based Nicor Gas Co. are based on the consolidated credit profile of the Nicor Inc. family of companies, most significantly Nicor Gas (roughly 63% of operating income), its containerized shipping unit, Tropical Shipping (24%), and smaller unregulated ventures that are energy related (13%) in 2006. Because there are no regulatory mechanisms or other structural barriers in Illinois that sufficiently restrict access by the parent to the utility's cash flow, Standard & Poor's Ratings Services views the default risk of Nicor Gas as being the same as that of the parent.

Nicor's creditworthiness reflects a strong business profile at '3' (business profiles are categorized from '1' (excellent) to '10' (vulnerable)) and certain financial parameters that until recently had been weak for the rating level. Financial improvement can be traced to continuing cost containment, higher operating results in all business segments, higher equity investment income, benefits resulting from reorganization of certain shipping and related activities, and the full realization of rate relief granted in the fall of 2005.

Nicor's business position is characterized by a large stable residential and commercial customer base that has demonstrated sustainable growth, low costs and rates, a diverse supply portfolio that includes substantial gas storage, solid operations, and favorable competitive standing. These strengths are tempered somewhat by Nicor's investment in higher-risk unregulated operations and regulatory uncertainties. On a stand-alone basis, Nicor Gas has a slightly weaker financial condition than its parent but its business profile is excellent ('2'), reflecting the absence of unregulated businesses, and encompassing the aforementioned strengths.

However, given the currently highly politicized climate in Illinois and volatile commodity prices, Nicor's exposure to various proceedings may be elevated. Of credit concern is the Illinois Commerce Commission's review of Nicor Gas' performance-based rate (PBR) plan during 2000 through 2002. Various intervening parties have filed testimony, alleging adjustments ranging from \$108 million to \$190 million. In addition, gas supply costs are open to the risk of hindsight prudence reviews by the commission, with 1999-2006 open for review. Potentially severe financial penalties may push certain key financial metrics out of an acceptable range for the mid 'AA' rating category.

Nicor's bondholder protection measures, which had been experiencing a declining trend, rebounded in 2006 due to the aforementioned factors. In this regard, adjusted funds from operations (FFO) interest coverage and FFO to total debt rose to 5.2x and 28%, respectively, from 4.8x and 19.6% in 2005, which had eroded due to various one-time events and higher operations and maintenance and bad debt expense. Total consolidated adjusted debt to capital stood at 52% at the end of 2006. The bulk of Nicor's debt is seasonal and is paid down as the winter heating season ends and revenues outpace expenses. In this regard, total debt to capital as of Sept. 30, 2006 and June 30, 2006 was a more conservative 48% and 43%, respectively. Therefore, when year-end balances are adjusted for gas inventories, debt leverage is more suitable for the rating level.

Short-term credit factors

Nicor and Nicor Gas have 'A-1+' short-term corporate credit and commercial paper ratings. Liquidity should remain adequate, despite the seasonal nature of the gas distribution business. Cash requirements typically increase in the last half of the year due to increases in natural gas purchases, gas in storage, and accounts receivable. During the first half of the year, positive cash flow generally results from the sale of gas in storage and the collection of accounts receivable. This cash is typically used to substantially reduce short-term debt, which is incurred to purchase gas in anticipation of the winter heating season, to near zero during the first half of the year.

Given the low-risk nature of Nicor Gas' regulated utility operations and healthy service territory, the company should generate reasonably stable cash flow. Standard & Poor's expects that consolidated funds flow from operations should cover the bulk of dividends and forecasted capital outlays of about \$200 million in 2007, assuming reasonable resolution of outstanding regulatory issues.

As of Dec. 31, 2006, Nicor had \$41.1 million of cash and cash equivalents and \$16.3 million of liquid short-term investments.

Nicor maintains a five-year revolving credit agreement totaling \$600 million that expires in September 2010. In October 2006, Nicor Gas entered into a new \$400 million 210-day seasonal revolver expiring in May 2007. The additional liquidity was added to accommodate Nicor Gas' short-term borrowing requirements associated with the need to procure natural gas, particularly to fill storage fields.

The bank facilities serve as backup for the issuance of commercial paper, accommodating short-term borrowing needs primarily associated with purchasing natural gas and supporting storage inventory for delivery to its customers during the winter. The company had \$350 million of commercial paper outstanding at the end of 2006. To comply with the covenants in the credit agreement, total debt to capitalization can't exceed 70%. As of Dec. 31, 2006, the company was comfortably in compliance with its debt covenants. The bank agreements do not contain material adverse change clauses or rating triggers. However, downgrades below investment grade could result in the Nicor companies having to post collateral. Standard & Poor's doesn't consider this a serious concern, given the lofty corporate credit ratings on Nicor and Nicor Gas.

Nicor has no long-term debt and Nicor Gas' next maturity of \$75 million comes due in August 2008.

As permitted by the American Jobs Creation Act of 2004, in December 2005, Nicor repatriated \$132 million of previously undistributed earnings. The repatriation was funded by cash available from foreign subsidiaries and proceeds received by Tropical in connection with the late-2005 issuance of a \$40 million, two-year unsecured term loan. The loan was fully paid off as of Dec. 31, 2006.

Outlook

The negative outlook on Nicor Gas mirrors that of parent Nicor and reflects uncertainties regarding outstanding regulatory issues related to Nicor Gas' PBR and purchased gas adjustment clause. Harsh financial penalties may push bondholder protection parameters out of levels suitable for mid 'AA' ratings. Resolution of outstanding challenges that results in manageable penalties would likely lead to ratings stability.

Accounting

Nicor reports its financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by Nicor's independent auditor, Deloitte & Touche LLP, in the most recent annual audited period.

Effective January 2006, the company reorganized certain shipping and related operations to take advantage of certain provisions of the Jobs Act that provide the opportunity for tax savings subsequent to the date of the reorganization. Through the end of 2006, an income tax expense had not been provided on about \$29 million of foreign company shipping earnings that are expected to be indefinitely reinvested offshore. Nicor has not recorded deferred income taxes of about \$28 million on \$81 million of cumulative undistributed foreign earnings that management expects to be indefinitely reinvested

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offshore.

In December 2005, Nicor repatriated \$132 million of cumulative undistributed earnings.

In 2005, the IRS revised the regulations pertaining to the tax accounting method. The new regulations required repayment in 2005 and 2006 of amounts previously taken as current tax deductions. During 2006 and 2005, the company reclassified income tax expense from deferred to current and repaid approximately \$135 million equally over those years.

Under FIN 47 (accounting for conditional asset retirement obligations), Nicor recognized asset retirement obligation of \$170.6 million as of Dec. 31, 2006.

Because Nicor has a relatively clean balance sheet, Standard & Poor's adjustments to the company's reported financial information are limited. Standard & Poor's adjusts Nicor's financial statements for operating leases, calculating an off-balance-sheet obligation (OBS) amount for debt, interest expense, and depreciation and including these amounts in our adjusted ratios. The present value of the company's operating leases is determined using a 5.1% discount rate, which is the company's average cost of debt in 2006, and is treated as a debt equivalent. We included \$81.2 million of OBS debt related to operating releases in Nicor's adjusted ratios as of Dec. 31, 2006, and \$4.7 million for imputed interest and \$28.7 million for depreciation. Standard & Poor's also makes adjustments for post-retirement obligations in its calculation of financial statistics.

Nicor has issued guarantees on behalf of its affiliates, guaranteeing payment by the affiliates under various contracts relating to physical and financial transactions in energy commodities and related services, and operating lease obligations. Given the history of Nicor's affiliate credit support, Standard & Poor's does not anticipate any call on these contingent obligations, but does stress the financial statements for analytical purposes to evaluate the company's strength and flexibility.

Because the bulk of Nicor Gas' short-term debt is seasonal, supported by inventory holdings and accounts receivables and liquidated by the conversion of these assets to cash, Standard & Poor's does not consider all of the short-term debt to be part of the company's permanent capital structure. Hence, the adjusted total debt to total capitalization ratio of 52.1% as of Dec. 31, 2006, somewhat overstates, for analytical purposes, the company's total debt leverage.

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Cash and investments	69.1	6.1	5.3	61.7
Debt	1,138.6	712.9	948.8	1,082.2
Preferred stock	0.0	0.0	28.2	0.0
Common equity	750.5	557.8	709.5	723.5
Total capital	1,889.1	1,270.7	1,686.5	1,805.7
Adjusted ratios				
EBIT interest coverage (x)	3.8	3.3	4.4	2.8
FFO int. cov. (x)	5.2	4.1	5.6	4.3
FFO/debt (%)	22.8	17.9	23.2	17.1
Discretionary cash flow/debt (%)	3.2	(5.9)	0.6	(6.6)
Net cash flow/capital expenditures (%)	77.5	74.6	120.7	44.2
Debt/total capital (%)	60.3	56.1	56.3	59.9
Return on common equity (%)	14.2	9.9	11.2	5.2

Common dividend payout ratio (un-adj.) (%)	72.8	63.8	65.5	186.3
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*Fully adjusted (including postretirement obligations).

Table 2**Nicor Inc. Financial Summary***

	--Fiscal year ended Dec. 31--				
	2006	2005	2004	2003	2002
Rating history	AA/Negative/A-1+	AA/Negative/A-1+	AA/Negative/A-1+	AA/Stable/A-1+	AA/Watch Neg/A-1+
(Mil. \$)					
Revenues	2,960.0	3,357.8	2,739.7	2,662.7	1,897.4
Net income from continuing operations	128.3	136.3	75.1	109.7	127.8
Funds from operations (FFO)	263.2	233.6	280.6	404.9	365.3
Capital expenditures	191.6	257.6	235.5	206.9	214.3
Cash and investments	67.6	126.9	12.9	83.2	100.9
Debt	1,060.6	1,257.3	1,097.7	1,154.1	899.9
Common equity	872.6	725.5	653.4	656.6	611.7
Total capital	1,933.2	1,982.8	1,751.2	1,810.7	1,511.6
Adjusted ratios					
EBIT interest coverage (x)	3.8	3.7	4.1	5.5	5.2
FFO int. cov. (x)	4.4	4.8	6.9	11.0	9.5
FFO/debt (%)	24.8	18.6	25.6	35.1	40.6
Discretionary cash flow/debt (%)	18.6	(8.5)	1.8	(24.8)	(0.8)
Net cash flow/capital expenditures (%)	94.1	58.8	84.3	156.2	132.9
Debt/total capital (%)	54.9	63.4	62.7	63.7	59.5
Return on common equity (%)	15.2	17.3	9.9	14.8	17.8
Common dividend payout ratio (un-adj.) (%)	64.9	60.2	109.2	74.5	63.0

*Fully adjusted (including postretirement obligations).

Table 3**Reconciliation Of Nicor Inc. 2006 Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)*****Nicor Inc. reported amounts**

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	848.1	372.6	372.6	212.5	49.1	447.0	447.0	187.4
Standard & Poor's adjustments								
Operating leases	81.2	33.5	4.7	4.7	4.7	28.7	28.7	4.9
Postretirement benefit obligations	20.5	(4.2)	(4.2)	(4.2)	--	2.6	2.6	--
Capitalized interest	--	--	--	--	0.7	(0.7)	(0.7)	(0.7)
Share-based compensation expense	--	--	3.4	--	--	--	--	--
Asset retirement obligations	110.9	9.5	9.5	9.5	9.5	(5.5)	(5.5)	--
Reclassification of nonoperating income (expenses)	--	--	--	20.7	--	--	--	--
Reclassification of working-capital	--	--	--	--	--	--	(208.9)	--

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cash flow changes

Total	212.5	38.8	13.4	30.7	14.9	25.1	(183.8)	4.2
adjustments								

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	1,060.6	411.4	386.0	243.2	64.0	472.1	263.2	191.6

*Nicor Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of 24-Apr-2007)*

Nicor Gas Co.

Corporate Credit Rating	AA/Negative/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Secured	
Local Currency	AA
Senior Unsecured	
Local Currency	AA-

Corporate Credit Ratings History

08-Dec-2004	AA/Negative/A-1+
15-Apr-2003	AA/Stable/A-1+
22-Jul-2002	AA/Watch Neg/A-1+

Business Risk Profile

1 2 3 4 5 6 7 8 9 10

Financial Risk Profile

Modest

Related Entities

Nicor Inc.

Issuer Credit Rating	AA/Negative/A-1+
Commercial Paper	
Local Currency	A-1+
Preferred Stock	
Local Currency	A+
Senior Unsecured	
Local Currency	AA-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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RESEARCH

Research Update:

Nicor 'AA' Ratings Are Affirmed; Outlook Revised To Stable

Publication date:

14-Apr-2008

Primary Credit Analyst:

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Rationale

On April 14, 2008, Standard & Poor's Ratings Services affirmed its 'AA' corporate credit rating on Nicor Inc. and subsidiary Nicor Gas Co. At the same time, Standard & Poor's revised its outlook to stable from negative on the natural gas distribution and shipping services company.

As of Dec. 31, 2007, Naperville, Ill.-based Nicor had about \$1 billion of adjusted total debt, including capitalized operating leases, tax-effected pension and postretirement obligations, and adjustments for short-term debt related to seasonal gas inventories. Adjusted total debt at Nicor Gas was about \$760 million.

The ratings affirmation and outlook revision to stable reflect the company's strong underlying credit profile and well-above-average credit metrics. Furthermore, the rating action reflects our expectations related to the company's future operating and financial performance. While uncertainties surrounding outstanding regulatory issues related to Nicor Gas' performance-based rates and purchased gas-adjustment clause remain, Standard & Poor's believes the company can absorb financial penalties at the current rating, although we will reevaluate the ratings and outlook on the company when these issues are settled. Uncertainties surrounding these regulatory issues have persisted for a number of years and may not be resolved in the near term.

The ratings on Nicor Inc. reflect its excellent business risk profile and intermediate financial risk profile. The ratings are based on the consolidated credit profile of natural gas utility Nicor Gas Co. (62% of operating income in 2007), its containerized shipping unit, Tropical Shipping and Construction Co. Ltd. (22%), and smaller unregulated operations (16%).

Nicor's excellent business risk profile reflects a large, stable, residential and commercial customer base of about 2.2 million customers and demonstrates sustainable growth, low costs and rates, a diverse supply portfolio that includes substantial gas storage, solid operations, and favorable competitive standing. Nicor's investment in higher-risk, unregulated operations and ongoing regulatory uncertainties temper company strengths. Although we also classified Nicor Gas' business risk profile as excellent, we consider the business risk profile to be slightly better than its parent, reflecting the absence of unregulated businesses.

We remain concerned with the ongoing review by the Illinois Commerce Commission of Nicor Gas' performance-based rate plan during 1999 through 2002. Various intervening parties have testified about cost adjustments ranging from \$108 million to \$190 million. In addition, gas supply costs are open to the risk of retroactive prudence reviews by the commission, with 1999-2007 open for review. We anticipate financial penalties to result in a one-time reduction in revenues for the company, which could result in a short-term deterioration in cash flow metrics. However, sensitivities under various Standard & Poor's penalty scenarios do not result in sustained financial ratios at unacceptable levels.

Nicor's other operations consist of Tropical Shipping, an energy marketing and related services segment, and several energy-related joint ventures. Tropical Shipping generates high operating margins for a shipping company and has performed well for Nicor, consistently contributing to

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earnings growth and cash flow. Tropical Shipping does not rely on Nicor for capital or liquidity. We expect Tropical Shipping to use its free cash flow to invest in new vessels, facilities, equipment, and acquisitions. The energy ventures segment provides retail and wholesale marketing services, maintenance contracts, heating, ventilation, and air conditioning installation and repair, and services to manage costs incurred by customers of Nicor's gas distribution system. Nicor's joint ventures include FERC-regulated Horizon Pipeline Co. LLC and an engineering and consulting firm, EN Engineering LLC.

Nicor has an intermediate financial risk profile, with appropriate bondholder protection measures for the rating. For 2007, adjusted funds from operations (FFO) interest coverage and FFO to total debt were above 5x and 36%, respectively, compared with 4.4x and 29% a year earlier. Total consolidated adjusted debt to capital was 50% at year's end, with a similar figure reported as of Dec. 31, 2006. A significant portion of Nicor's year-end debt balance is related to gas inventories and is paid down as the winter heating season ends and revenues outpace expenses. While total debt levels were relatively flat year over year, FFO increased by almost \$75 million, primarily benefiting from higher net income and a lack of deferred tax adjustments related to the repatriation of funds under the 2004 American Jobs Creation Act. Over the past few years, debt to capital has improved from about 60% to the current 50% area due to reduced debt levels and higher retained earnings. Financial ratios are expected to stay at these levels for the foreseeable future, barring any significantly adverse regulatory decisions.

Short-term credit factors

The short-term rating and commercial paper rating on Nicor is 'A-1+'. In 2007, Nicor generated FFO of \$337 million. Nicor's working-capital needs vary significantly based on natural gas prices and customer demand. We expect liquidity to remain adequate, despite the seasonal nature of the gas distribution business. Cash requirements typically increase in the last half of the year due to increases in natural gas purchases, gas in storage, and accounts receivable. During the first half of the year, the company generates positive cash flow related to the sale of gas in storage and the collection of accounts receivable. This cash is typically used to repay short-term borrowings, which result from the purchase of gas in anticipation of the winter heating season.

Given the low-risk nature of Nicor Gas' regulated utility operations and healthy service territory, the company should generate reasonably stable cash flow during the annual cycle. Standard & Poor's expects that consolidated funds flow from operations should cover the majority of cash needs, which include annual dividends of about \$85 million and forecasted capital outlays of about \$250 million for 2008. Consolidated debt maturities are \$75 million in 2008, \$50 million in 2009, and zero in 2010.

As of Dec. 31, 2007, Nicor had \$92 million of cash and short-term investments, and total borrowing capacity of \$631 million available under Nicor Gas's \$600 million revolving credit agreement, which matures in September 2010, and Nicor's \$400 million, 210-day seasonal revolver, which expires in May 2008. The \$400 million credit line is available to Nicor Gas and provides additional short-term borrowing capacity related to the purchase of natural gas, particularly for storage inventories.

The Nicor and Nicor Gas bank facilities serve as backup for the issuance of commercial paper. The company had \$369 million in commercial paper outstanding as of December 2007. To comply with the covenants in the credit agreement, total debt to capitalization cannot exceed 70%. As of Dec. 31, 2007, the company was comfortably in compliance with its debt covenants. The bank agreements do not contain material adverse change clauses or rating triggers. However, downgrades below investment grade could result in the Nicor companies having to post collateral. Standard & Poor's does not consider this a serious concern, given the corporate credit ratings on Nicor and Nicor Gas.

Outlook

The outlook on Nicor is stable. The stable outlook on reflects that company's strong, sustained operational and financial performance and supportive

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regulatory framework. We could revise the outlook to negative or lower the rating if the financial penalties associated with the current outstanding regulatory issues are significantly higher than currently expected, or the risks associated with Nicor's nonregulated operations increase materially coupled with a sustained weakening of financial measures. Given the current high rating and existing regulatory issues, an outlook revision to positive is not anticipated.

Ratings List

Ratings Affirmed; Outlook Revised To Stable

	To	From
Nicor Inc.		
Corp. credit rating	AA/Stable/A-1+	AA/Negative/A-1+

Nicor Gas Co.		
Corp. credit rating	AA/Stable/A-1+	AA/Negative/A-1+

Ratings Affirmed

Nicor Inc.	
Senior unsecured debt	AA-
Preferred stock	A+
Commercial paper	A-1+

Nicor Gas Co.	
Senior secured debt	AA
Senior unsecured debt	AA-
Commercial paper	A-1+

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Moody's Investors Service

Global Credit Research
Credit Opinion
7 MAY 2007

Credit Opinion: Nicor Inc.

Nicor Inc.

Naperville, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Preferred Stock	Baa2
Commercial Paper	P-2
Northern Illinois Gas Company	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	A1
Senior Secured Shelf	(P)A1
Commercial Paper	P-1

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Key Indicators

Northern Illinois Gas Company

	2006	2005	2004
ROE (NPATBUI / Avg. Equity)	3.9%	4.2%	6.2%
Ebit / # of Residential & Commercial Customers	50.3	50.2	57.6
EBIT / Interest Expense	2.4x	2.5x	3.2x
RCF / Debt	13.5%	9.7%	20.0%
Debt / Book Capitalization (Excluding Goodwill)	40.8%	40.4%	39.4%
FCF / FFO	75.3%	-80.4%	22.5%

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Nicor Inc. (Nicor, the parent, Baa2 preferred) is a holding company whose primary subsidiaries are Northern Illinois Gas Company (Nicor Gas, the utility, A1 senior secured), Illinois's largest gas utility, and Tropical Shipping (not rated), a containerized shipping company serving the Caribbean region. Almost two-thirds of Nicor's operating income is generated by the regulated utility. The remainder comes from Tropical Shipping (roughly 20%) and other energy ventures (over 10%).

Rating Rationale

The rating at the utility is the primary determinant of the rating at the parent since the utility provides the majority of the parent's operating income. Conservatively managed and financed, Nicor continues to be focused on its existing businesses and geographic footprint. The company is steady state with mature businesses, but the slightly higher rate of organic growth at its non-utility businesses is diminishing the utility's dominance of the company.

Moody's applies its rating methodology for diversified gas companies in rating Nicor on a consolidated basis, its LDC methodology in rating the utility, and the shipping methodology in assessing Tropical. The key rating factors currently influencing Nicor's rating and stable outlook are (in order of importance):

Regulatory Support (at Nicor Gas):

In 2006, Nicor Gas's concluded its first base rate increase in almost a decade. The \$30 million net rate increase has stabilized, but not lifted, the company's profitability, which had been declining for a few years. The utility maps to a Baa under this factor in that its rate design exposes the company to a degree to gas prices and to volume declines from weather and energy efficiency. To-date, there has been no precedent of such margin stabilizing mechanisms as de-coupling and weather normalization adjustments being granted in Illinois.

Financial Strength (Nicor consolidated):

Overall, Nicor maps to Baa under the Financial Strength factor. Nicor's profitability is moderate but stable, subject to relatively minor fluctuations due to weather and limited organic growth. Because its businesses have modest revenue upside potential, cost containment will be key to maintaining its profitability. The company is reasonably capitalized (adjusted debt/capitalization 42% at 12/31/06), its EBIT/interest is in the 3x range.

Quality of Diversification (at Nicor):

Tropical Shipping represents the bulk of Nicor's unregulated operations. According to Moody's rating methodology for the shipping industry (Ba3 median industry rating), Tropical would likely be non-investment grade on a standalone basis. Its credit profile is limited by its very small scope (on the low end of our mapping grid), but it benefits from a solid financial position and conservative financial management by Nicor. Tropical has generated positive free cash flow consistently over the past decade, except in 2001 in the downturn following 9/11. Nevertheless, the company is subject to the economic conditions in the narrow region it serves, and the supply and demand cycles inherent in the shipping industry that could change its competitive landscape.

Notching Considerations:

The A1 senior secured rating at the utility results in its A2 issuer rating. The Baa2 preferred rating at the parent implies an A3 senior unsecured rating, which is one notch below the utility's issuer rating. This notching reflects the structural subordination of the parent debt to the debt at the utility, the comparatively higher business risk at the parent due to exposure to unregulated businesses, and limited ring-fencing which does not entirely insulate the utility from the parent's higher business risk.

Rating Outlook

The stable outlook incorporate the expectation of consolidated EBIT/Interest in the 3x range and retained cash flow (RCF)/Debt in the teens.

Nicor remains exposed to the Illinois Commerce Commission's longstanding investigation into Nicor Gas's past performance based rates (PBR) program. Customer refunds claimed by intervenors range from about \$140 to \$190 million. The stable outlook is based on any resolution of this being credit-neutral to Nicor.

What Could Change the Rating - Up

Unlikely in the foreseeable future, based on Nicor Gas's current rate structure and the modest organic growth in Nicor's businesses. An upgrade would be considered if Nicor improves its EBIT/interest to the 4 times range, RCF/debt to about 20%.

What Could Change the Rating - Down

Consolidated EBIT/interest below 3 times, RCF/debt below 10%. An unfavorable outcome in the PBR case that impairs Nicor's credit quality.

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Rating Factors

Northern Illinois Gas Company

Local Gas Distribution	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%)					3.9%		
b) Ebit / # of Residential & Commercial Customers (5%)					50.3		
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship				X			
Factor 3: Ring Fencing (10%)							
a) Ring Fencing Quality				X			
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT / Interest (15%)				2.4x			
b) RCF / Debt (15%)				13.5%			
c) Debt / Book Capitalization (excluding goodwill) (15%)			40.8%				
d) FCF / FFO (15%)	75.3%						
Rating:							
a) Methodology Model Implied Senior Unsecured Rating				Baa1			
b) Actual Senior Unsecured Equivalent Rating			A2				

Note: the above factors are based on 2006 historical data

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